

# Annual Audit Letter

Isle of Wight Council

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.**

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## Audit opinion and financial statements

- 1 I gave an unqualified opinion on the Council's accounts on 29 September 2009.
  - 2 The financial statements provided for audit were of a reasonable quality. In comparison to prior years there were fewer errors, reflecting a continuing trend of improvement by the Council.
  - 3 However, as part of my audit I did identify a few errors. None of these were individually material to the accounts, ie they were not significant enough to affect a reader's understanding of the accounts. The errors were mainly related to the presentation of information within the accounts, and they had no effect on the balances that impact on the Council Tax, or on the General Fund reserve carried forward.
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## Value for money

- 4 I issued an unqualified value for money conclusion stating that 'I am satisfied that, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009'.
  - 5 This is the first time we have been able to issue an unqualified conclusion for Isle of Wight Council since the requirement was introduced in 2005/06. Of particular note is the significant improvement the Council has made in its asset management since last year. This year's result is also creditable as the 2008/09 assessment is broader in its scope than in previous years.
  - 6 In my Use of Resources assessment, I concluded that the Council and its Fire and Rescue Service both scored 2 out of a maximum of 4. This means that I have no significant concerns over the arrangements put in place by the Council and that those arrangements meet established professional practice and guidance and are operating effectively.
  - 7 I have highlighted strengths in the Council's medium term financial planning arrangements; its continuing development of its prioritisation processes and the allocation of financial resources to these.
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- 8** I have also identified areas that I believe have scope for further improvement, which the Council has also acknowledged. These include:
- developing information and the links between finance, performance and risk information sources across the organisation;
  - reducing the number of waivers and improving contract management; and
  - services managing and reducing their use of natural resources.
- 9** I have recommended that the Council look at the potential areas for improvement that I have identified, and develop an action plan that takes these forward linked to its key priorities.

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### Actions

- 10** I would highlight three areas from my audit where the Council needs to take action. These are to:
- engage in early communication with the audit team to explore new or complex areas. This will aid the efficiency of the financial statements production and audit; and, potentially, reduce audit fees;
  - progress the planned changes to the presentation of information for decision making and performance management. The current pilots which link finances to performance outcomes and risk management need to be expanded across all Council services; and
  - maintain the clarity of focus on the Council's priorities in strategic and service planning and ensure that the increasingly scarce resources are applied in accordance with those priorities.
- 11** For these key areas I have raised either recommendations, or identified them as areas for improvement, during the course of my audit. The Council has acknowledged these, and is already taking them forward during 2009/10.

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### Independence

- 12** 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

- 13** The most significant issue from the audit is that I was able to give an unqualified opinion, a 'clean' opinion, on the Council's financial statements on 29 September 2009.
- 14** The majority of items which we raised from the audit related to the way things were presented in the notes to the accounts, and the errors identified had no impact on the Council Tax or the General Fund reserve carried forward to future years.
- 15** During my planning process I raised a number of risks that I would need to review during my audit, including the complex area of accounting for its Waste PFI, changes to the 2008/09 SoRP, and changes to how the Council prepared its cashflow statement. I was pleased to find that the Council had correctly accounted for the majority of these risk areas, and I noted only a few minor issues of non-compliance with the SoRP.
- 16** The key issues raised for the Council's attention were:
  - that a prior period adjustment of £0.4 million was made for pension fund valuations that we considered unnecessary, as it did not meet the Financial Reporting Standard requirements to make such an adjustment;
  - items of £4.2 million were included in the statement of recognised gains and losses, that we felt should be presented within the Income and Expenditure account; and
  - the Council applied an incorrect practice of revaluing assets that it had sold during the year, estimated at £0.7 million.
- 17** As the misstatements were below the materiality level of £6.9 million and in my view did not distort the understanding of the financial statements, I was able to acknowledge the Council's decision not to amend these areas and give an unqualified opinion.
- 18** We also raised errors which the Council did amend, including that:
  - the disclosure note on financial instruments was understated as it did not contain analysis of all assets and liabilities of the Council, only its borrowing and lending;
  - the note presenting revaluations and disposals of fixed assets was unclear, and did not represent the true nature of the transactions; and
  - the Council had included income and expenditure within the accounts that it should not be accounting for, as these were the Primary Care Trust's share of pooled budget between the two organisations.

- 19** My audit also covered the accounts of the Pension Fund. The issues I raised from this part of my audit were again mainly around presentation and disclosure of information, although in this case there was a small impact on the Fund Account balance as £81,000 cash balances had been duplicated in the accounts. This was corrected by the Council.

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### Material weaknesses in internal control

- 20** I did not identify any significant weaknesses in your internal control arrangements.
- 21** For the pension fund I suggested the Council could be more consistent in evaluating the value of unquoted investments against independent sources. I also suggested it retained the evidence of this to support the accounts and assist the audit.

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### Accounting Practice and financial reporting

- 22** I considered the qualitative aspects of your financial reporting, and have no specific issues to raise that would merit inclusion in this letter.
- 23** In my reporting to the Council I have raised a small number of recommendations with the key aim of more consistently promoting earlier communication between my audit team and the Council. This is especially relevant on highly technical issues. This will hopefully improve the efficiency of the audit, and could reduce audit fees.

# Value for money and use of resources

**I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.**

**I also 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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## Use of resources judgements

- 24** The new UoR assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the KLOE are more strategic and focus much more explicitly than previously on value for money achievements than on processes.
- 25** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 26** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
- 27** I also undertake a use of resources judgement for the Council as a Fire and Rescue Authority. Where the same KLOE are assessed, I take account of the scores for the Council as a whole, but I am required to assess whether those arrangements are in place across the Fire Service.
- 28** The use of resources scores for the Council and for the Fire and Rescue Service are shown in Table 2. I have previously issued detailed reports on my assessments which I presented to the Council's Cabinet on 13 October 2009.

**Table 1 Use of resources scores**

	<b>Council</b>	<b>Fire and Rescue</b>
<b>Use of resources theme</b>	<b>Scored judgement</b>	<b>Scored judgement</b>
<b>Managing Finances</b>	<b>2</b>	<b>2</b>
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	2	2
KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	2	2
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	2	2
<b>Governing the Business</b>	<b>2</b>	<b>2</b>
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2	2
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	2	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	2	2
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	2	2
<b>Managing Resources</b>	<b>2</b>	<b>2</b>
KLOE 3.1 - Is the organisation making effective use of natural resources?	2	Not applicable in 2008/09
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	2	Not applicable in 2008/09
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Not applicable in 2008/09	2

### Overall conclusion

- 29** The Council has addressed the areas of weakness we identified in 2007/08. In particular it has implemented new arrangements and an action plan to improve the management of its assets. It has now put in place arrangements that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 30** There are no scores less than 2 in our assessment, and this has enabled me to provide an unqualified value for money conclusion to the Council for the first time since the requirement was introduced in 2005/06. This is especially creditable given that for 2008/09 the assessment is broader in its scope, as I mention above.

## Value for money and use of resources

- 31** To improve its scores further the Council now needs to demonstrate outcomes for local people in key priority areas. The Council has taken some major decisions and agreed some key strategies and policies in 2008/09, and also after the cut-off point for our assessment at the end of that financial year. Its major decisions include:
- decisions for Schools Reorganisation aimed at improving educational attainment;
  - agreeing the outline business case for the Highways PFI for the improvement of the Island's roads; and
  - the implementation of model for change for the Fire Service.
- 32** Key agreed strategies and policies that are aimed at supporting the achievement of its objectives include the:
- performance management framework; and
  - asset management plan.
- 33** In my view it is making good progress in establishing solid arrangements and processes to underpin those decisions, and to achieve its improvement outcomes. Some of these areas are by necessity long term programmes where the planned outcomes are not immediately expected to be delivered, for example its priorities of the Highways PFI which will not be operational until 2013. However, there will be outcomes and improvements that can be identified along the way and I will work with the Council in 2009/10 to identify those and take them into account in my use of resources assessment.
- 34** The Council has some areas where there is good potential for it to demonstrate outcomes during 2009/10. In particular, these are in its arrangements for medium term financial planning, and in the commissioning and procurement of services through its Voluntary and Community Strategy.

## Managing finances

- 35** The Council has arrangements meeting minimum requirements to manage its finances, with strengths in the area of medium term financial planning.
- 36** There are good integrated financial planning arrangements, with an embedded medium term financial strategy linked to the corporate objectives. Focus needs to be increased on delivering efficiencies over the medium term, but there is a sound developing basis to do so. There is engagement with stakeholders in financial planning and evidence this is taken into account, and the Council is strong at managing its spending within its budget. Developing financial leadership across the Council wider than the Director of Resources has scope for improvement.
- 37** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. This impacts on my audit and as part of my responsibility I have reflected on the wider environment, specific issues and risks, and the Council's response.

- 38** The impact on treasury management strategies in the public sector has been immediate. Although not having investments in Icelandic Banks, the Council has reviewed its Treasury Management arrangements in response to the wider economic climate and in my view appropriately strengthened these during the year. Through this, and taking account of other factors, it has taken the opportunity to make early repayment of some of its borrowing therefore reducing its exposure to risk.
- 39** 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. These have already been experienced by the Council in 2008/09, but it has managed its overall expenditure within its original budget. There are likely to be further challenges for policy priorities where patterns of demand for services are changing. In my view the Council has improved the clarity of its priorities during 2008/09, and its supporting processes to assist it in achieving these. For example, there is a clear allocation of resources to the Council's priorities via the medium term financial plan. This puts it in good stead, with a clear framework, to make any difficult decisions that may become necessary.
- 40** The Council is developing its arrangements to more consistently understand its costs. A more strategic and structured approach to VfM has been introduced, underpinned by greater benchmarking. This is yet to deliver outcomes. The quality of information and its presentation for decision making could be improved. There are good plans to achieve efficiencies, but again these are at early stages and are yet to show outcomes clearly.
- 41** Financial reporting is accurate and timely at service levels, but timeliness at corporate levels should be improved. The development of integrated finance, performance and risk reporting is being rolled out across the organisation but is still work in progress. The proposed approach to setting the 2010/11 budget is a good example of this integration being rolled out across all services as it combines the sources of information to assist making budget decisions in how resources are allocated, and to what potential benefit. This will also enable the Council to clearly demonstrate whether it has achieved the desired outcomes at the year end. There is good use of finance reports to manage spending, as I have indicated above, responding to the pressures experienced in 2008/09.

### Governing the business

- 42** Arrangements to govern the business of the Council are in place and are generally effective, with some good examples of application. However, there is inconsistency across services in the application of these arrangements and the ability to demonstrate outcomes.

## Value for money and use of resources

- 43** Some commissioning and procurement arrangements are good, notably in adult social care with joint commissioning with the PCT and some user involvement. These have led to examples of improved services. Better use of IT to enable change in service provision is starting. There are some examples of developing the supply market to involve a greater range of service providers and stimulate competition, with promising prospects from the Voluntary and Community Organisation Strategy to involve the voluntary sector. Procurement arrangements are in place with some evidence of savings. A high number of waivers due to poor contract planning show that there is still improvement to be made in proactive contract management. The Council recognises this and intends to ensure the reduction of waivers, aided by improvements in information expected from its new financial system.
- 44** The Council is producing reliable data and has good management arrangements to secure the data quality of the performance indicators it collects, maintaining improvements made in prior years. Having focused on the quality of the data, the Council needs to continue to develop the use of its information as, in my view, the presentation and quality of information to support decision making is inconsistent. There are examples of good reports, such as the Leisure Facility Needs Analysis in January 2009, showing good quality information, identification of individually costed options, and well presented evaluation. This information and analysis will provide the Council with the ability to assess the impact and outcomes of its decisions. However, this standard of report is not consistent. Improved processes have been put in place to monitor and manage performance against priorities, including the Performance Management Framework introduced in October 2008. But, there is still scope for improvement in the use and presentation of information to enable this to be effectively implemented throughout the organisation including for Members.
- 45** The Council is committed to ethical standards, with an effective Ethical Standards Committee. The overall clarity of vision of the organisation has improved as I mention above, with prioritisation of aims contributing to the clearer links through the corporate plan to service plans. Partnership governance has also improved with greater clarity on the purpose of each partnership and the outcomes to be achieved.
- 46** Internal control arrangements are in place across the Council. Risk management arrangements are generally good, but some innovative projects have been delayed because risks were not fully identified and managed. Counter fraud arrangements are mainly reactive. The Council could make better use of its resources, such as Internal Audit and Housing Benefits, by greater coordination and directing their resources to identified risk areas. The system of internal control is adequate, supported by internal audit and leading to a good quality Annual Governance Statement.

## Managing resources

- 47** The Council makes adequate use of natural resources and physical assets, but there is scope for significant improvement.

- 48** The Council's arrangements to manage its natural resources are developing. There is a strong commitment and vision for its use of natural resources, with a good basis in its carbon management strategy, action plan, and employment of an Energy Manager. It has identified some initiatives to reduce its carbon footprint. This needs to be developed and embedded into services by collating good quality information to establish the baseline usage and then actively managing reductions going forward.
- 49** In its strategic management of assets the Council is committed to improvement. It is responding to previous assessments of its management arrangements and starting to implement its action plan. It has already implemented improved strategic arrangements for the management of its asset base and underpinning plans to aid rationalisation of the estate and relocation of services through investments in IT and HR. It can demonstrate how these are consistent with the capital receipts programme and medium term financial strategy. Improvements have also been made in working with partners and the community in asset management. There are good examples of joint use of assets between the Council, PCT and Police. Partnering arrangements are in place for schools, and with housing associations for the provision of social housing. Improvement still needs to be made in the area of good quality information and its use. Backlog maintenance is high, and condition survey information needs to be used in conjunction with the rationalisation plan to focus maintenance and investments on assets that the Council plans to retain.

### Fire and Rescue Service

- 50** The Fire and Rescue Service has arrangements meeting Level 2 in all three areas of managing finances, governing the business and managing natural resources.
- 51** The service has taken a major decision to implement a change programme, Model for Change. This is underpinned by its new Integrated Risk Management Plan. In my view this has the potential to bring about a number of improvements for the service, to demonstrate value for money, and to assist the achievement of effective outputs and outcomes. The key challenge for the service is for this programme to be effectively implemented, for which processes of consultation have already begun and key decisions were taken in October 2009.

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### VFM Conclusion

- 52** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in table 2 as the relevant criteria for the VFM conclusion at the Council.
- 53** Where the scored judgement is 2 or above, I conclude that the VFM criteria has been met. Therefore, as the Council scored 2 in all categories I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Audit fees

54 Table 2 below sets out the comparison of actual to planned audit fees for 2008/09.

**Table 2**      **Audit fees**

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and annual governance statement	£176,950	£176,950	0
Pension fund	£35,000	£27,800	+ £7,200
Value for money	£128,400	£135,600	- £7,200
<b>Total audit fees</b>	<b>£340,350</b>	<b>£340,350</b>	<b>0</b>
Non-audit work	0	0	0
<b>Total</b>	<b>£340,350</b>	<b>£340,350</b>	<b>0</b>

55 This was the first year in which I conducted a separate audit of the pension fund, and the fee increased as it became clear my initial estimate was too low.

56 The value for money element of my work reduced by an equivalent amount.

57 The variance to the fees was agreed with the Director of Resources in March 2009.

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# Closing remarks

- 58** I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I presented this letter at the Audit Committee on 10 November 2009 and will provide copies to all committee members.
- 59** 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**

<b>Report</b>	<b>Date issued</b>
Data Quality 2007/08	October 2008
Use of Resources 2007/08	November 2008
Review of project management arrangements (new financial system)	December 2008
Annual Governance Report	September 2009
Pension Fund Annual Governance Report	September 2009
Use of Resources 2008/09	September 2009
Fire Use of Resources 2008/09	September 2009
Fire Service data quality spot checks	October 2009

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Kate Handy  
 District Auditor  
 November 2009

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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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