

Annual Governance Report

Council of the Isles of Scilly

Audit 2007/08

September 2008

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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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is now complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate. This report is based on the findings of our work up to 22 September 2008.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements.
- 4 There has been a significant improvement over audits in previous years. The draft financial statements were submitted in advance of the target date. A full set of financial statements were available at the start of the audit and the quality of the supporting working papers has improved significantly. Although there have been a number of amendments to the statements, this has proven to be a much smoother process than in previous years. However, the Council needs to ensure that the series of arrangements that supported this process are in place for future years.

Value for Money

- 5 We propose issuing an adverse conclusion similar to that issued last year, stating the Council did not have had adequate arrangements for securing economy, efficiency and effectiveness in five areas of the twelve areas. However, last year the Council did not meet the requirements for achieving value for money in six of the twelve areas so this is an improvement over last year. The reduction from six to five is because there have been improvements in arrangements for managing performance against budgets.

Next steps

- 6 We ask Special Council to:
 - consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 7 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council’s accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Action required/taken
Additional fees required in 2005/06 and 2006/07 due to issues arising from the production of the financial statements.	There has been a significant improvement over previous audits. Submission of draft 2007/08 financial statements was within timescale. Although there have been a number of amendments to the statements, this has proven to be a much smoother process than in previous years.
Late submission of grant claims.	Ensure the Council maintains a database of claims to ensure all submissions are made by the due date.

Financial statements and Annual Governance Statement

Recommendation

R1 Ensure the arrangements to support the improvements in this year's closedown and production of the financial statements are maintained for future years.

R2 Ensure the Council maintains a database of claims to ensure all submissions are made by the due date.

Draft representation letter

11 Before we issue our opinion, auditing standards require us to obtain from you and management written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

12 We also need specific representations from you about the following: as with 2006/07, the rights and obligations over all assets disclosed in the financial statements because these include buildings constructed on land that is not owned by the Council but on land leased from the Duchy of Cornwall.

13 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

14 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Action required/taken
<p>A review of the FRS17 entries identified that all the expenditure had been charged to central services and not apportioned across all of the services.</p>	<p>Apportion FRS17 expenditure across all services.</p>
<p>Our work identified issues surrounding incorrect application of the financial reporting standards for capital expenditure:</p> <ul style="list-style-type: none"> - the Council capitalised and included in the fixed asset register expenditure which was depreciated fully in the year as it did not result in a fixed asset or added to the value of life of the asset. This should be disclosed as an impairment, not depreciation. Although this does not impact on the bottom line figure or on the balance sheet, an adjustment is required as it impacts on accumulated depreciation in future years; - an asset was created for grant money received and then paid out to a project. As there is no asset this is a deferred grant and should be treated as such; - of £147,700 capitalised for work at the school only £ 30,632 related to actual capital expenditure. The balance related to revenue expenditure and should be written off to the income and expenditure account - the Council did not adjust accumulated depreciation in respect of assets revalued in the year. This does not have an impact on the value of the fixed assets disclosed in the accounts, but the disclosure note in respect of accumulated depreciation is incorrect. 	<p>Review the Council's policy on the treatment of capital expenditure to ensure expenditure incurred in future years meets the requirements of FRS15.</p>
<p>On revaluation of fixed asset balances, where the revaluation results in an increase in an asset's value, depreciation</p>	<p>Sufficient information should be maintained in the fixed asset register to enable accumulated depreciation to be</p>

Financial statements and Annual Governance Statement

Issue or risk	Action required/taken
<p>previously charged on that asset should be reversed in the note to the financial statements. Due to the fact that the Council has not previously maintained records of depreciation charged to individual assets, this accounting adjustment cannot be made. Consequently, the Council cannot demonstrate that accumulated depreciation balances in the note to the financial statements are correct. It should be noted however that the issue does not affect the fixed asset balances reported on the balance sheet.</p>	<p>recorded against individual assets. Where a category of fixed assets is revalued in full and that revaluation results in an increase in value, all accumulated depreciation balances should be written out of the fixed asset note.</p>
<p>Although the Annual Governance Statement is consistent in structure and content with requirements, it would be further improved by:</p> <ul style="list-style-type: none"> - identifying the action being taken to improve budget setting; - inclusion of the approach to production of the asset management strategy and the arrangements for effective management of the asset base; - arrangements for ensuring effective contract monitoring; - inclusion of some comment on the role of: the authority, executive, internal audit and other explicit review/assurance mechanisms (other councils have included these) - inclusion of explicit reference to the findings of the Head of Internal Audit Opinion and what this states in terms of the effectiveness of governance arrangements - more reference to outcomes that demonstrate effectiveness. 	<p>Include the following in future iterations of the Annual Governance Statement::</p> <ul style="list-style-type: none"> - identifying the action being taken to improve budget setting; - inclusion of the approach to production of the asset management strategy and the arrangements for effective management of the asset base; - arrangements for ensuring effective contract monitoring; - inclusion of some comment on the role of: the authority, executive, internal audit and other explicit review/assurance mechanisms (other councils have included these) - use of the head of internal audit opinion in the production of the annual governance statement.

Recommendation

R3 Apportion FRS17 expenditure across all services.

R4 Review the Council's policy on the treatment of capital expenditure to ensure expenditure incurred in future years meets the requirements of FRS15.

R5 An adjustment is required to accumulated when a category of fixed assets is revalued in full and that revaluation results in an increase in value, all accumulated depreciation balances should be written out of the fixed asset note.

R6 Include the following in future iterations of the Annual Governance Statement::

- identifying the action being taken to improve budget setting;
- inclusion of the approach to production of the asset management strategy and the arrangements for effective management of the asset base;
- arrangements for ensuring effective contract monitoring;
- inclusion of some comment on the role of: the authority, executive, internal audit and other explicit review/assurance mechanisms (other councils have included these); and
- use of the head of internal audit opinion in the production of the annual governance statement.

Errors in the financial statements

15 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. These non-trivial errors, their impact on the financial statements and the action taken by management are listed below to assist those charged with governance in discharging their responsibilities.

Table 3 Errors in the financial statements

Issue or risk	Action required/taken
<p>The Council capitalised £147,700 for work at the school.</p> <p>Our review identified that only £30,632 related to actual capital expenditure.</p> <p>The balance related to revenue expenditure (repairs and maintenance) and should be written off to the income and expenditure account.</p>	<p>The Council has adjusted the accounts to transfer revenue expenditure to the income and expenditure.</p> <p>This increases expenditure by £117,068.</p>
<p>Fixed asset additions included Youth Capital - community grant of £46,952. This amount was capitalised in the year and then fully depreciated.</p> <p>Our review identified that it in fact relates to grant money that has been received and then paid out to a project so there is no asset.</p> <p>This is therefore a deferred grant and should be treated as such.</p>	<p>The Council has adjusted the accounts to treat this as a deferred grant.</p> <p>This reduces capital expenditure by £46,952.</p>
<p>The closing capital financing requirement of £5,854k (per note 14) does not reconcile to the required balance sheet entries (£5,783k). There is a difference of £71k.</p> <p>Our review of the relevant notes to support the balance sheet entries identified that the Capital Adjustment account (note 26), has the incorrect entries in respect of depreciation and impairments. This is due to the way in which the HRA depreciation and the MRA are worked.</p>	<p>The Council has adjusted and reconciled the accounts.</p>

The audit report

16 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Material weaknesses in internal control

17 We have identified weaknesses in the design or operation of an internal control that might result in a material error in your financial statements which has not been reported to you. Alternatively, these weaknesses are symptomatic of broader weaknesses in your control environment. These weaknesses are set out in Table 4.

Table 4 Weaknesses in internal control

Issue or risk	Action required/taken
<p>The Council has not followed the requirements of the Prudential Code in that it has only calculated its borrowing limit for the next year, and not 3 years and has not calculated any prudential indicators. This was also raised in our 2006/07 annual governance report.</p>	<p>Ensure the Council complies in full with the requirements of the Prudential Code.</p>
<p>Our review of bank and cash identified that:</p> <ul style="list-style-type: none"> - as raised in the interim audit memorandum the bank reconciliation does not fully reconcile. Although the difference is very small, and the Council has moved to reconciling through the daily balancing, there remain unresolved errors on a key control; - cheques totalling £32,426 over 6 months appear on the bank reconciliation; - unreconciled amounts of £4,076.17 appear on the ledger reconciliation. 	<p>Ensure there are full and regular reconciliations of the Council's ledger to bank statements and ensure the writing back of out-of-date cheques.</p>

Recommendation
<p>R7 Ensure the Council complies in full with the requirements of the Prudential Code.</p>
<p>R8 Ensure there are full and regular reconciliations of the Council's ledger to bank statements and ensure the writing back of out-of-date cheques.</p>

18 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

19 There are no other matters we wish to bring to your attention.

Value for money



- 20** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 21** We have assessed the arrangements of the Council as adequate in seven of the twelve areas and our findings are shown in Table 5. Therefore, we intend to issue an adverse conclusion stating that we are not satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, in that it did not put in place:
- Arrangements to monitor the quality of published performance information;
 - Arrangements to maintain a sound system of internal control;
 - Arrangements to manage and improve value for money;
 - Medium-term financial strategy, budgets and a capital programme are soundly based and designed to deliver strategic priorities;
 - Arrangements for the management of the asset base.
- 22** Appendix 2 contains the wording of our draft report. However, our work this year has identified improvements in the arrangements for managing performance against budgets. Therefore, although we propose issuing an adverse conclusion as the Council did not have adequate arrangements in five of the twelve areas, the similar conclusion last year was based on not having adequate arrangements in six of the twelve areas.
- 23** We also wish to draw the Council's attention to the assessment of financial standing (number 9 in Table 5 overleaf). Our review against the relevant criteria identified that not all requirements of the Prudential Code for setting limits for borrowing had been met. This, therefore, would have led to a 'No' assessment against this specific VFM criterion.  [1.3.i Match resources and spendin](#)  [DA briefing note](#)
- 24** We have discussed this issue in detail with the Director of Finance and Resources and accept that, this issue aside, there are no concerns arising surrounding the short- to medium-term financial position of the finances of the Council. Therefore, as this is the only area in which the Council did not meet the criteria for a 'Yes' assessment in the vfm conclusion, a 'No' assessment could give an incorrect view to the local community on the underlying financial standing of the Council. Discretion was given in this area in 2006/07; we have also applied discretion for this year, assessed the Council as having met this VFM criterion and require the Council to ensure it meets the requirements of the Prudential Code to set the relevant borrowing limits in future years.

Table 5 Value for money conclusion: criteria where assessed as not adequate

VFM criteria	Basis of judgement	Met in 2006/07?	Met in 2007/08?
1. Arrangements for setting, reviewing and implementing strategic and operational objectives	Separate VFM conclusion question	Yes	Yes
2. Communication with service users and other stakeholders including partners.	Separate VFM conclusion question	Yes	Yes
3. Arrangements for monitoring and scrutiny of performance.	Separate VFM conclusion question	Yes	Yes
4. Arrangements to monitor the quality of published performance information.	Data Quality Audit	No	No
5. Arrangements to maintain a sound system of internal control.	Use of Resources (4.2)	No	No
6. Arrangements to manage significant business risks.	Use of Resources (4.1)	Yes	Yes
7. Arrangements to manage and improve value for money.	Use of Resources (5.2)	No	No
8. Medium-term financial strategy, budgets and a capital programme are soundly based and designed to deliver strategic priorities.	Use of Resources (2.1)	No	No
9. Arrangements to ensure that spending matches available resources.	Use of Resources (3.1)	Yes	Yes
10. Arrangements for managing performance against budgets.	Use of Resources (2.2)	No	Yes
11. Arrangements for the management of the asset base.	Use of Resources (2.3)	No	No
12. Arrangements to promote and ensure probity and propriety in the conduct of business.	Use of Resources (4.3)	Yes	Yes

Value for money

Recommendation	
R9	Ensure the Council complies in future with all requirements of the Prudential Code on the setting of borrowing limits.
R10	Ensure the Council has robust plans in place to meet the criteria necessary to achieve a 'Yes' assessment in future years.

Formal audit powers

25 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

26 We do not intend to exercise these formal powers.

Independence

- 27** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 28** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 29** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 30** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 31** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 6 Audit fees

	Plan 2007/08 (£)	Actual 2007/08 (£)
Financial statements and Annual Governance Statement	37,103	41,103
Whole of government accounts	943	943
Value for Money	14,164	14,164
Data Quality	5,111	5,111
Inspection	5,900	5,900
Total Audit Fees	63,221	67,221

- 32** The analysis above shows that the fee was increased by £4,000 for the audit of the financial statements and Annual Governance Statement. This was agreed with the new Director of Finance and Resources as part of the 'risk-pooling' arrangements for the audit fee for 2007/08 and 2008/09.

Our arrangements to ensure independence and objectivity

33 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 8.

Table 7 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 - Draft letter of representation

25 September 2008

Mr P Jarvis
District Auditor
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 ending 31 March 2008

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 2008.

I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

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.

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.

Related party transactions

I confirm the completeness of the information provided 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.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect 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.

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.

Independence

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.

In addition to the general representations listed under 'Irregularities' in this letter, there are no frauds of which we are aware that have not been brought to your attention.

 [200607 ISA+ compliance checklist v2-0](#)

Signed on behalf of the Council of the Isles of Scilly

Chair

Chief Executive

Director of Finance and Resources

Appendix 2 - Proposed wording of our opinion

Independent auditor's report to the Members of the Council of the Isles of Scilly

Opinion on the financial 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 2008 under the Audit Commission Act 1998. The Authority 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 within them.

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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and Resources and auditor

The Director of Finance and Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial 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, the firefighters' pension fund accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- 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.

Independence

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 financial 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, the firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited Authority accounting statements, the firefighters' pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword only. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, the 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, the 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, the 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, the 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, the firefighters' pension fund accounting statements and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- the firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters' pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year

Patrick Jarvis
District Auditor

Audit Commission, Collins House, Bishopstoke Road, Eastleigh, HAMPSHIRE SO50
6AD

Xx September 2008

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 specified by the Audit Commission for principal authorities and fire and rescue authorities. 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.

Adverse Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal authorities and fire and rescue authorities specified by the Audit Commission, I am not 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 2008, in that it did not put in place:

- arrangements to monitor the quality of published performance information and to report the results to members;
- arrangements to maintain a sound system of internal control;

Independence

- arrangements to manage and improve value for money;
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- arrangements for the management of its asset base.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 13 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Patrick Jarvis
District Auditor

Audit Commission, Collins House, Bishopstoke Road, Eastleigh, HAMPSHIRE SO50
6AD

Xx September 2008

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
District Auditor

Audit Commission, Collins House, Bishopstoke Road, Eastleigh, HAMPSHIRE SO50
6AD

Xx September 2008

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report					
5	R1 Ensure the arrangements to support the improvements in this year's closedown and production of the financial statements are maintained for future years.	3				
6	R2 Ensure the Council maintains a database of claims to ensure all submissions are made by the due date.	3				
8	R3 Apportion FRS17 expenditure across all services.	3				
9	R4 Review the Council's policy on the treatment of capital expenditure to ensure expenditure incurred in future years meets the requirements of FRS15.	3				
9	R5 An adjustment is required to accumulated when a category of fixed assets is revalued in full and that revaluation results in an increase in value, all accumulated depreciation balances should be written out of the fixed asset note.	3				
9	R6 Include the following in future iterations of the Annual Governance Statement:: <ul style="list-style-type: none"> identifying the action being taken to 	2				

Independence

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>improve budget setting;</p> <ul style="list-style-type: none"> inclusion of the approach to production of the asset management strategy and the arrangements for effective management of the asset base; arrangements for ensuring effective contract monitoring; inclusion of some comment on the role of: the authority, executive, internal audit and other explicit review/assurance mechanisms (other councils have included these); and use of the head of internal audit opinion in the production of the annual governance statement. 					
11	R7 Ensure the Council complies in full with the requirements of the Prudential Code.	3				
11	R8 Ensure there are full and regular reconciliations of the Council's ledger to bank statements and ensure the writing back of out-of-date cheques.	2				
14	R9 Ensure the Council complies in future with all requirements of the Prudential Code on the setting of borrowing limits.	3	Covered under R7	Covered under R7	Covered under R7	Covered under R7
14	R10 Ensure the Council has robust plans in place to meet the criteria necessary to achieve a 'Yes' assessment in future years.	3				