

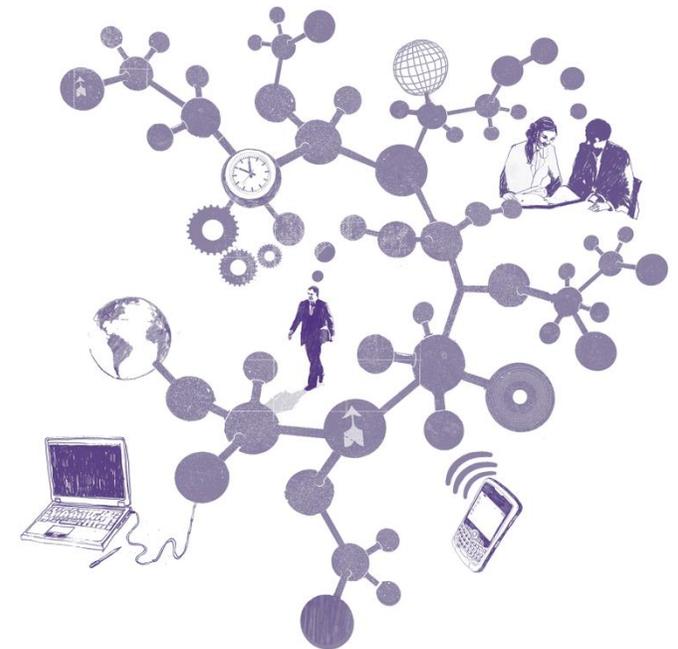
The Annual Audit Letter for The Council of the Isles of Scilly

Year ended 31 March 2014

13 October 2014

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at The Council of the Isles of Scilly ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 3 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)

We reported the findings arising from our audit of the financial statements to the Council in our Audit Findings Report on 22 September 2014. The key messages reported were:

- There were a small number of errors identified during the course of our audit although only one of these was material – involving a movement between long term assets and current assets; and
- The Council's original Annual Governance Statement did not, in our view, provide an accurate representation of the arrangements that were in place during the year and focussed more on the Council's future plans and post year-end changes. We requested revisions to be made to the Annual Governance Statement.

We issued an unqualified opinion on the Council's 2013/14 financial statements on 24 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages

<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2013/14 on 24 September 2014.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014. However, our report did highlight the following issues:</p> <ol style="list-style-type: none"> 1. The Head of Internal audit opinion dated 1 May 2014 stated that: <ul style="list-style-type: none"> • The Council's control environment was poor in that weaknesses in control were identified that need to be addressed to ensure that internal control arrangements are effective. • The current risk exposure to the organisation is considered high due to issues around the Corporate Governance within the Council. 2. The Council did not have a robust and sustainable Medium Term Financial Strategy that went beyond 2014/15. Furthermore, the 2014/15 financial strategy was balanced by the inclusion of a number of non-recurrent savings totalling approximately £400,000. 3. We noted that the Council has been revising its management structures and internal processes and procedures and that this work is on-going. Much of this change is aimed at addressing the issues identified in our Audit Findings Report.
<p>Whole of Government Accounts</p>	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.</p>
<p>Certification of grant claims and returns</p>	<p>As noted in our certification plan, there is only one return applicable to the Council of the Isles of Scilly in 2013/14. This is for Housing Benefits and the deadline for the completion of this work is 30 November 2014. We will report our findings to the Council once this work has been completed.</p>
<p>Audit fee</p>	<p>Our fee for 2013/14 was £35,100, excluding VAT, which was in line with our planned fee for the year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations made during the 2013/14 audit. These have been agreed with the Council and were included in our Audit Findings Report.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>We required a number of amendments to be made to the Council's Annual Governance Statement, primarily to ensure it reflected the Council's arrangements in 2013/14.</p> <p>Recommendation: The Council should update the procedures for the production of its Annual Governance Statement. Involvement from senior management and Members is essential if the Council is to develop a meaningful statement that will drive through improvements in the Council's governance.</p>	High	<p>Management response: The preparation of the current Annual Governance Statement has included significant involvement from the senior management and Members as this has been driven this year by the senior leadership team.</p> <p>Responsible officer: Senior Manager: Finance and Resources.</p> <p>Due date: 31 March 2015</p>
2.	<p>The Council's Internal Auditors reported a number of weaknesses in their Annual Report.</p> <p>Recommendation: Develop an action plan to address the weaknesses identified by Internal Audit and ensure that progress against this action plan is monitored.</p>	High	<p>Management response: Weaknesses highlighted by the internal audit team have been raised with the relevant managers and processes and actions are underway to address these.</p> <p>Responsible officer: Senior Manager: Finance and Resources to monitor.</p> <p>Due date: In hand</p>
3.	<p>All councils face significant financial challenges over the next few years and will need to make difficult decisions. The Council did not have a robust and sustainable Medium Term Financial Strategy that went beyond 2014/15. Furthermore, the 2014/15 Financial Strategy was balanced by the inclusion of a number of non-recurrent savings, totalling approximately £400,000.</p> <p>Recommendation: Develop a medium term financial plan that sets out the Council's future priorities and sources of finance.</p>	High	<p>Management response: The current medium term strategy was revised in 2012, with the medium term financial plan (MTFP) being revised for 2015-16 as part of the budget setting process. This is on the agenda for further revision following the budget setting process for 2015/16, which will address the sources of finance.</p> <p>Responsible officer: Senior Manager: Finance and Resources</p> <p>Due date: 28 February 2015</p>

Appendix B: Reports issued and audit fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	35,100	35,100
Grant certification	7,300	TBC
Total audit fees	42,400	TBC

Our certification work will not be completed until November 2014. We will advise the Council of the final fee for this work at that time.

There is an additional fee of £1,080 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for Unitary Authorities and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan (including interim audit work)	March 2014
Audit Findings Report	September 2014
Certification Plan	October 2014
Annual Audit Letter	October 2014
Certification Report	Due December 2014



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