Annual Audit Letter

Year ending 31 March 2017

Council of the Isles of Scilly

March 2019

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (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 2017.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to full Council as those charged with governance in our Audit Findings Report on 14 December 2017.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council’s financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council’s financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £0.233m, which was 1.3**%** of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 17 December 2018.
Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We therefore issued an adverse value for money conclusion in our audit report to the Council on 17 December 2018. The basis for this was: • The ongoing S24 recommendations around budgetary control, medium term financial planning, capacity and skills and the level of general fund reserves, • Weaknesses if the overall control environment, • Weaknesses in the arrangements for financial management, and • The findings of an Ofsted report rating the overall effectiveness of the school as inadequate.
Use of statutory powers	In 2015/16 we concluded that it was appropriate for us to use our powers to make formal recommendations under section 24 (para 7.2) of the Act due to the Council's current and forecast financial position. The Council considered these recommendations, and their response, at the Council meeting on 27 January 2017. Our Audit Plan dated 7 October 2017 set out the Council’s responses to these recommendations. The Council are now forecasting cashflows and are using this as to inform treasury management decisions. There has been progress against the other recommendations made although progress has been slow. An interim MTFP was put in place, however, the Council is still very much concentrating on the here and now. We have noted that a revised MTFP was taken to Council in March 2019. The strategic collaboration with Cornwall Council has made a positive impact in relation to capacity and capability within finance however there remains weaknesses in the control environment and capacity across the rest of the Council remains stretched. The level of reserves remain a concern in relation to the financial resilience of the Council. The Council has to operate within its resource envelope and cannot continue to use reserves to balance the budget. We have noted that a further review of earmarked reserves has taken place in 2018/19 to bolster general fund reserves. We provide an update on progress against these recommendations on page 5 of this letter.

Executive Summary

Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was completed before the national deadline of 30 November 2017.
Certificate	We certify that we have completed the audit of the accounts of the Council of the Isles of Scilly in accordance with the requirements of the Code of Audit Practice.

Working with the Council

Following on from the challenging 2015/16 audit, 2016/17 was significantly improved. The 2016/17 audit did however remain challenging for the Council due to legacy issues and in particular locating supporting evidence. The recording and recognition of grants reported in 2015/16 also remained an issue. We have supported the Council though this process by:

- Fully engaging and discussing emerging issues throughout the process,
- Resourcing the audit with a higher grade team to support the Council,
- Moving resources to fit with the Council's reporting dates and late submission,
- We adapted our approach to resolve key issues,
- We followed up and challenged the S24 recommendations – to drive the required improvements forward.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff. The key messages arising from our audit of the Council's financial statements were:

- The draft financial statements and supporting working papers were significantly improved on the previous year,
- Responses to audit queries were detailed and timely. This was made more difficult for the team responsible for the statements due to not having adequate historic supporting records.

Grant Thornton UK LLP
March 2019

Responding to our Statutory Recommendations

The table below shows the progress made by the Council in addressing our Section 24 recommendations. This was the position as at December 2018.

Recommendation	Audit Update	Progress
Review budgetary control procedures to improve efficiency and timeliness of financial reporting to budget holders and Members, so that Members can make informed decisions through the use of accurate data, forecasting and budget monitoring reports.	Budget monitoring has improved. Quarterly reports were taken to Council throughout 2017/18. Internal audit however gave limited assurance in respect of budget monitoring. This was in relation to training being provided and financial policies being updated. We understand that Internal Audits recommendations have been addressed, however, we have not yet re-assessed this progress. Whilst progress has been made, this recommendation remains in progress.	● (Amber)
Review the assumptions underpinning the medium term financial strategy to ensure that adequate resources are available to deliver strategic priorities. This may involve engagement with the relevant Government departments and should include a review of cost pressures being faced in 2017/18 so that appropriate action can be taken through the review of costs, income, savings plans and cash flow forecasts.	The Council have a interim MTFP in place. In reality the Council are concentrating very much on the hear and now. The S151 plans to produce a full 4 year MTFP as part of the 2019/20 budget setting process. This will involve revisiting all key underlying assumptions. The LGA will also be involved in this process. This recommendation remains in progress and it is crucial that this actioned within 2018/19. We have re-iterated in this report that the Council have to develop a robust medium term financial plan that supports the Council's strategy.	● (Amber)
Ensure that plans are further developed to ensure that they are supported by detailed underlying assumptions that are deliverable and can be monitored.	Savings plans are being developed and will be looked at again in more detail as part of developing the MTFP. There is a current shortfall against the £215k savings target of circa £80k. Reliance upon reserves is not sustainable and therefore it is crucial that as part of developing a medium term financial plan that clear plans are in place to address budget gaps.	● (Amber)
Review the capacity and skills required within the finance team.	The Strategic Collaboration has had a positive impact on financial monitoring and reporting as well as service delivery. There are some aspects of the general control environment that still remain to be fully addressed, however this forms part of this collaboration agreement. It is pleasing to note that the Council of the Isles of Scilly have put in place arrangements to monitor the performance of the collaboration and to ensure the services provided are adequate. Capacity and capability have been addressed within the finance and legal functions, however there still remains capacity issues in other areas. This recommendation remains in progress.	● (Amber)
Re-examine the level of General Fund reserves. As part of this, the Council should review all grant and reserve balances to ensure that they are being held in accordance with the terms and conditions or for specific purposes.	This exercise was completed when we reported in January 2018. The financial statements presented for audit as at the year end 31/03/18, show that general fund reserves have fallen from £0.999m to £0.802m whilst general fund earmarked reserves have increased slightly from £2.991m to £3.001m. The general fund balance remains below the approved level. The level of reserves have to be continually monitored in light of the councils ongoing financial challenge.	● (Amber)
Carry out a 12 month rolling cash flow forecast - as well as a 14 month cash flow forecast from the end of January 2017.	During 2016/17 the CIOS had begun forecasting cash for Treasury Management purposes and to ensure that the relevant finance was available to pay creditors as they arise. We are pleased to be able to report that this forecasting remains in place.	● (Green)

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £0.233m, which is 1.3**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash (£0.010m), senior officer remuneration (£0.005m), auditors' remuneration (£0.001m), and related party transactions (£0.010m).

We set a lower threshold of £0.012m, above which we reported errors to the Council in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. For the Council of the Isles of Scilly, we concluded that the greatest risk of material misstatement related to the occurrence of other income and the existence of its associated receivables. Our testing of debtors in 2015/16 identified an overstatement of £546k. Of this amount £335k related to grant income for schemes which were completed and therefore no further funding was due. Of the remaining amount £80k related to debtors that had been double counted. The balance of the over statement (£131k) were due to evidence supporting a lower amount than the accrual made. For these reasons we were unable to rebut the risk of revenue recognition.	We undertook the following work in relation to this risk: • walked through the material revenues streams, for example grant revenues, trading accounts and other revenues. • reviewed the application of the revenue recognition policy for all income streams. • undertook substantive testing of material revenue transactions and review of unusual significant transactions. • undertook substantive testing of year end debtors including after date receipts. • reviewed control account reconciliations.	Our audit work identified a grant for £124k which was incorrectly included in net cost of services. This should have been accounted for as a receipt in advance. This was due to the terms and conditions not yet being met. Our work on revenue recognition also identified a material weakness in controls. This was in relation to the way in which grant income is currently recognised. The system in its current form does not allow efficient or effective recording (and subsequent treatment) of grant income into the general ledger. This increases the risk of incorrectly recognising revenue.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We undertook the following work in relation to this risk: • reviewed accounting estimates, judgments and decisions made by management. • reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation. • we undertook a walkthrough of the processes and controls in place. • reviewed unusual significant transactions.	Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries did not identify any significant issues. We reported one control weakness in relation to a member of staff who has inappropriate access to post journals.

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.	We did not anticipate that there was a major risk of manipulation of expenditure recognition in local authorities. The lack of specific financial performance targets within local authorities means there is limited incentive for fraudulent manipulation, while the culture of local authorities in general means that such manipulation would be seen as unacceptable. The nature of expenditure streams also means that material expenditure fraud would be difficult to perpetrate and conceal. Therefore we did not consider this to be a fraud risk for the Council of the Isles of Scilly – our identification of other risks highlight the work that we performed in relation to the expenditure within the Council – specifically employee remuneration, operating expenses and capital expenditure.	Our audit work did not identified any significant issues in respect of expenditure recognition. Further details of our work testing operating expenditure is set out later in this letter.
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We undertook the following work in relation to this risk: • a walkthrough of the key controls to assess the whether those controls were designed effectively. • reviewed the instructions issued to valuation experts and the scope of their work. • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of any management experts used. • discussed with valuer the basis on which the valuations were carried out and challenged key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Council's asset register. • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. • reviewed and update our understanding of the Council’s programme of revaluations to ensure this remained appropriate.	Within the year the Council revalued all assets, with the exception of Porthcressa. A fair value review was undertaken on this asset. The results of this suggested a potential reduction in value of £64k. The Council did not adjust this amount as it is an estimate. We recommended that Porthcressa be included in the 2017/18 programme of revaluations. Our audit work did not identify any further significant issues in respect of this risk.

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	We undertook the following work in relation to this risk: • identified the controls put in place by management to ensure that the pension fund liability was not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We also gained an understanding of the basis on which the valuation was carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work did not identify any significant issues in relation to the risk identified.
Financial statement level risk due to resources, capacity and the quality of supporting working papers. We experienced significant difficulty obtaining supporting documentation for account balances and transactions in 2015/16. This issue was exasperated by resource and capacity constraints. Due to the inter authority agreement now in place with Cornwall Council we expect capacity to improve, however, due to historic issues the quality of supporting working papers initially remained a significant risk to the audit.	We continued to discuss areas where issues around supporting working papers arose. We were not required to adapt our approach due to a lack of supporting working papers.	Throughout the audit process we experienced limited issues in relation to this risk. The finance team provided detailed working papers and in some instances went back a number of years to obtain adequate audit evidence.
Going Concern The Council are facing significant financial challenges. There was a significant overspend in 2016/17. Opening General Fund reserves were also below the required level. A movement from earmarked reserves has taken place in year to correct this. By 2020/21 the Council is faced with delivering £1.9m in savings.	We undertook the following work in relation to this risk: • reviewed management's assessment of going concern assumptions and supporting information, e.g. 2016/17 and 2017/18 budgets, savings plans, movements in reserves and cash flow forecasts. • reviewed the completeness and accuracy of disclosures on material uncertainties in the financial statements and critical judgements.	Whilst the Council face a significant financial challenge over the medium term we did not identify any material uncertainties in relation to the Council producing its accounts on a going concern basis for 12 months from December 2017.

Audit of the Accounts

Other Audit Risks

In this section we detail our response to the other risks of material misstatement.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Employee remuneration Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct).	We undertook the following work in relation to this risk: • Documented our understanding of processes and key controls over the transaction cycle. • Undertook a walkthrough of the key controls to assess the whether those controls are designed effectively. • Completed analytical procedures and a trend analysis for the period. • Substantively tested payroll transactions for the period. • Reconciled the annual payroll to the ledger and to the segmental analysis note in the accounts. • Reviewed the payroll accrual processes and determine whether substantive testing was required. • Substantively tested the completeness of IAS19 pension liabilities. • Agreed the employee remuneration disclosures in the financial statements to supporting evidence. • Agreed all senior officer disclosures to payroll data.	When re-performing the reconciliation of the payroll system to the General Ledger a difference of £43k was noted. The finance team have not been able to explain this difference. Our review of the exit packages note also identified that two redundancies totalling £17k had not been disclosed. These have been disclosed in the amended financial statements. Our audit work did not identified any further issues in respect of this risk.

Audit of the Accounts

Other Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Operating expenses Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated).	We undertook the following work in relation to this risk: • Documented our understanding of processes and key controls relating to operating expenses. • Undertook a walkthrough of the key controls to assess the whether those controls are designed effectively. • Reviewed the application of the year end closedown process for capturing creditor accruals. • Undertook substantive testing of year end creditors including after date payments. • Tested Goods Received not Invoiced listing to confirm appropriate accruals. • Reviewed control account reconciliations covering the agreement of creditor payments to the ledger.	Our testing in 2016/17 found three invoices which had not been accrued for. These related to expenditure incurred in 2016/17, where the payment was made in 2017/18. The total of these invoice was £1,512 which was less than trivial and therefore has not been adjusted in the financial statements. All of the invoices were small individually (less than £800). A similar issue was reported in 2015/16.

Audit of the Accounts

Other Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user. This has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We undertook the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure. • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Our work on the new 'telling the story' disclosure note identified variances between the 2015/16 figures reported and the disclosure notes in the 2016/17 financial statements. There was a £86k difference between the Council outturn (reported in the 2015/16 financial statements segmental analysis note) and Note 7 in the 2016/17 financial statements. There were also a number of small differences between the segmental reporting note and the prior year audited segmental reporting note. These a were largely due to changes in the approach adopted this year and the 2015/16 notes being compiled on historic data that the current finance team do not have access to. Further disclosure was added to the 2016/17 financial statements to clarify these differences to the reader. In addition and in relation to the 2016/17 figures our review identified that: • Note 7 - the Directorate outturn was misstated by £164k due to a late adjustment. It was agreed that the report to full Council on 29 September 2017 should be used as the basis for the balances in this note. • Note 8 - due to a late change in Note 13 (taxation note), the balances were not fully consistent with the respective notes. The statements were adjusted for these findings.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 17 December 2018. We identified a £124k adjustment affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £10,278K; the audited financial statements recorded net expenditure of £10,402k. This change was primarily driven by changes made to grant income recognised in the Net Cost of Services. Our testing identified that one grant totalling £124k had been incorrectly recognised as the conditions attached to the grant had not been achieved. There were also a number of disclosure changes following the audit.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts. This was however not in line with the National deadline.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

In 2015/16 we concluded that it was appropriate for us to use our powers to make recommendations under section 24 (para 7.2) of the Act due to the Council's current and forecast financial position.

More detail on progress against these recommendations can be seen on page 5 of this letter.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the Council of the Isles of Scilly in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in December 2018, we agreed recommendations to address our findings. These recommendation are in addition to the S24 recommendations set out on page 5 of this letter:

- Savings plans (or income generation schemes) should be further developed to ensure the budget shortfall is addressed over the medium term. Schemes should be supported by detailed plans that are deliverable.
- The Council should monitor progress against each individual savings scheme. This ensures transparency of reporting and mitigates the risk of potential unforeseen impact on front line services.
- The Council should review the processes and controls by which partnerships are assessed, developed and monitored. This will ensure that the purpose of each partnership is clear and achievement against the stated objectives are monitored.
- The Council's cash flow forecasting tool should be refined to show all actual and expected transactions. This will improve the transparency of the tool and will also ensure that the Council can accurately forecast its financing requirements.
- The Council should review its KPI's that are included in the narrative report to ensure they are appropriate and fully reflective of the Councils vision.

Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial resilience The Council is working on a MTFP. The Council has a forecast outturn deficit of £494K for 2016/17 and a substantial savings plan of £842k over the medium term. Of this £842k, £545k is to be delivered in 2017/18. Following last years audit, general fund reserves currently stand at £531k, which is below the £1m approved level.	We reviewed the Councils progress towards an MTFP and reviewed savings plans to ensure that these are realistic and achievable. In addition we reviewed the appropriateness and substance of reserve balances.	The Council's opening general fund reserves balance was £531k. As recommended there was a detailed review of reserves undertaken. As part of this £925k of earmarked reserves have been transferred to the general fund. This along with other movements means that general fund reserves, per the draft accounts, stood at a healthier £1m. However, In 2016/17 the Council overspent, despite attempts to control spending. This has further added to the financial challenge faced by the Council. During the 2016/17 financial year budget monitoring was not undertaken on a regular basis. The first budget monitoring report was taken to the January 2017 Council meeting. A further budget monitor was taken to the September 2017 meeting and the quarter 2 report is due in December 2017. There was no meaningful medium term financial plan in place during 2016/17. During 2017/18 the Council has made good progress on a medium term financial plan. This plan was presented to full Council in November 2017. This plan sets out the challenge faced by the Council. In 2017-18 the Council need to make £609k of savings with an additional £254k over the medium term. However even if the £609k of savings are delivered there would still be a gap in 2017/18 of £510k. This will be covered through the use of trading accounts and reserves. This is clearly unsustainable and meaningful savings need to be made. In 2018/19 there is a need to either save, or generate additional revenue totalling £415k, with an additional £71k in 2019/20 and £75k in 2020/21. Whilst there are already schemes outlined totalling £254k against these savings requirements, the savings challenge remains significant. For a council the size of the Isles of Scilly delivering meaningful savings is challenging and there is a risk that depleting resources further could impact on the efficient running of the Council and delivery of core services.

Value for Money conclusion (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
		At the mid point in the financial year its is unclear from reporting what has been achieved against the £609k 2017/18 target. Based on the arrangements in place for 2016/17 we concluded that there are weaknesses in the Councils arrangements for planning finances to support the sustainable delivery of strategic priorities and maintain statutory functions and planning, organising and developing the workforce effectively to deliver strategic priorities.
Financial governance and control environment During 2015/16, and the early part of 2016/17, financial reporting to full Council was inadequate. In addition we reported in 2015/16 that the general control environment was weak. A weak control environment and inadequate financial reporting leaves the council open to fraud and can also lead to decisions being made using incorrect information.	We reviewed the Councils financial governance arrangements and systems of internal control.	During 2015/16 a number of control account reconciliations had not been completed (bank, purchase ledger and sales ledger). These control weaknesses contributed to a number of the errors that were identified as part of our financial statements audit. During 2016/17 the monthly control account reconciliations remain un-completed. However, due to the additional capacity available for the accounts production temporary mitigating controls were put in place. This resulted in far fewer issues being noted as part of our financial statements audit. Integral to maintaining a sound system of internal control is managers and members receiving timely and accurate information that supports the delivery of strategic priorities. During 2016/17 the first report was received in January 2017. The Council is embarking on a plan to transfer its core financial systems onto Cornwall Councils ERP platform. This is aimed at addressing the control issues and overtime the accuracy and timeliness of financial reporting. Based on the arrangements in place during 2016/17 we concluded that there were weaknesses in the Councils arrangements for financial reporting and maintaining a sound system of internal control and providing reliable and timely financial reporting that supports the delivery of strategic priorities.

Value for Money conclusion (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Working effectively with partners Working effectively with partners is essential in order to achieve better outcomes and deliver the Councils strategic objectives with the limited human and financial resources available. The Council has a number of strategic partnerships through the SMART islands project, Devolution, Sustainability and Transformation Plan (STP) and Cornwall Council.	We reviewed the Council's arrangements for entering into and monitoring partnership arrangements. We also reviewed the reporting and monitoring arrangements of these strategic partnerships.	Working more effectively in partnership is crucial in ensuring that service provision is sustainable on the Isles of Scilly. Whilst the Council clearly has arrangements in place to further facilitate partnership working there is a need to strengthen the processes and controls by which partnerships are assessed, developed and monitored. This will ensure that the purpose of the partnership is clear and achievement against the stated objectives are monitored. One key partnership going forward is with Cornwall Council. This will hopefully bring much needed capacity and capability and will have a positive impact on the Council's overall control environment. There are now delegation agreements in place for Finance and Information Services. Like all partnership arrangements the Council will need to ensure that performance is monitored and measured to ensure value for money is being achieved. We will continue to maintain a watching brief in this area.
Leadership and capacity The Council has gone through significant change to its leadership team and continues to encounter significant challenges in recruitment and capacity.	We reviewed updated governance and delivery arrangements and discussed developments with the S151 officer. In addition we were able to assess capacity at an operational level through our financial statements audit.	The Council have entered into a delegation agreement with Cornwall Council. This includes Finance, Section 151 officer and Information services. This gives the Council much needed capacity and technical capability. The Council has received a circa £1m grant from DCLG to fund the transfer its core financial systems onto Cornwall's ERP platform. Due to the importance and magnitude of these changes we will continue to maintain a watching brief in this area.
Ofsted inspection of children's services Ofsted issued a report on the Five Islands School which rated the overall effectiveness of the school as inadequate. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.	We reviewed the Ofsted report and took this into account in forming our conclusion.	The Ofsted report set out the Five Islands School inadequate in relation to leadership and management, quality of teaching, outcomes, and the impact of leaders and managers in the boarding provision. A monitoring visit took place in November 2017. The results of this visit have yet to be published. We concluded that there were weaknesses in the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	29 September 2017
Audit Findings Report	14 December 2018
Annual Audit Letter	11 April 2019

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers' Pensions certification	3,200

Fees

	Planned 2016/17 £	Actual fees 2016/17 £	Actual fees 2015/16 £
Statutory Council audit	27,128	53,128	87,809
Housing Benefit Grant Certification	4,478	4,478	4,520
Total fees	**31,606**	**57,606**	**92,329**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The final fee for the 2015/16 audit of £87,809 includes a fee variation of £60,681 in relation to the additional work required to complete the 2015/16 audit. This has now been approved by PSAA. The actual fee for 2016/17 of £53,128 includes a fee variation of £26,000 in relation to the additional work required to complete the 2016/17 audit. This is still subject to PSAA approval.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

B. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	We recommend that the Council reviews its procedures for recognising grant income. All grants should recognised in line with the accounting policies. Further more all grants should be recorded on a grants register and this should document their subsequent treatment. Supporting documentation setting out conditions should be retained in support of grants received.		We recognise this as a current significant weakness within the Councils control environment, indeed part of the 2016/17 overspend was a direct consequence of funding capital spend from revenue resources were these should have been funded from grant. Going forward tighter controls around evidencing grant conditions and monies held before spend is committed, together with accurate accounting, in line with policies, in the Councils balance sheet will help clarity around the Councils grant position. Procedures will be reviewed in line with the implementation of the new financial system and further tidying of balances held.	Controls on spend –immediate effect, CEX, senior managers & S.151 Officer Accounting procedures –March 2018, Deputy S.151 Officer, Mike Harris
2	Savings plans (or income generation schemes) should be further developed to ensure the budget shortfall is addressed over the medium term. Schemes should be supported by detailed plans that are deliverable.		Agreed, the Council is committed to ensuring it lives within its overall resources available over the medium term. Work is beginning on establishing a more robust budget & medium term financial plan with savings plans that are equally robust, deliverable and critically can be monitored on their delivery. The Council will look to set a balanced budget 2018/19 at its meeting in Feb 2018.	March 2018 - CEX and Section 151 officer
3	It is recommended that the Council monitor progress against each individual savings scheme. This ensures transparency of reporting and mitigates the risk of potential unforeseen impact on front line services.		Agreed as identified above. It is likely that individual savings will not be truly tracked until the new financial system is implemented and more accurate data is provided on a regular basis	From2018/19 (April 2018) –S.151 Officer
4	We recommend that the Council reviews it's year end creditors and accruals processes to ensure that all staff are aware of the year end requirements and that income and expenditure is recorded in the correct financial year. The Council should also review its de-minus levels at which an accrual is made.		As part of the financial system implementation more control around financial processes will be introduced. Procedures and policies, including de-minimus, will be reviewed and amended in line with the practices currently undertaken with the system in Cornwall but reflect the local context and position of the Council of the Isles of Scilly.	From 2018/19 (April 2018) –DeputyS.151 Officer

B. Action plan (cont)

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
5	The Council should review the processes and controls by which partnerships are assessed, developed and monitored. This will ensure that the purpose of each partnership is clear and achievement against the stated objectives are monitored.		We will look to undertake a review of the current processes and controls around partnerships in the first half of the next financial year, 2018/19.	Sept2018 –CEX, Senior Managers and S.151 Officer
6	We recommend that the cash flow forecasting tool be refined to show all actual and expected transactions. This will improve the transparency of the tool and will also ensure that the Council can accurately forecast its financing requirements.		We are committed to improving on the tool that was introduced during the 2017/18 financial year as a response to the section 24 recommendations placed on the Council. The tool enables the Council to plan at a high level but improvements are identified as needing to be made to ensure better clarity and accurate forecasting.	June2018 –Deputy Section 151 Officer
7	We recommend that the Council review its KPI that is included in the narrative report to ensure they they are appropriate and fully reflective of the Councils vision.		Focus has been on producing compliant statements for 2016/17 with the small resources it has available, however as the Council gets back on an even keel more focus can be brought on to the value add aspects of the statement.	September as part of the 2017/18 Statement of Accounts Deputy S.151 Officer
8	We recommend that access rights to post journals for this member of staff be removed to prevent potential unauthorised postings.		It is unlikely that changes will be made to the current financial system owing to lack of knowledge with the current system operations. The Council is moving to a new financial system with a planned go live of March 2018, therefore addressing the recommendation.	March 2018 Deputy Section 151 officer
9	We recommend that Porthcressa is included in the 2017/18 programme of revaluations		The valuations as part of the 2017/18 financial statements will include Porthcressa	March2018 –Deputy S.151 Officer

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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