

Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	THURSDAY, 25 SEPTEMBER 2014 At 10.00AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Reg Barry (Chairman), David Eccles, Stuart Hutchinson, John Medland, Colin Richards
Officers Present	Jon Baker, Sharon Betts, Andrew Carpenter, Stuart Fraser, Laura Gaudion, Claire Shand, Bob Streets, Jo Thistlewood
Auditors	Emma Butler (PricewaterhouseCoopers), Geraint Newton (PricewaterhouseCoopers), Kevin Suter (Ernst and Young) and David White (Ernst and Young)
Apologies	Mr Paul Wilkinson

26. [Minutes](#)

The minutes to the meeting held on [26 June 2014](#) were reviewed.

RESOLVED:

THAT the minutes be agreed.

27. [Declarations of Interest](#)

No declarations were made.

28. [Public Questions Time](#)

There were no written questions received.

29. [Audit Work Programme](#)

Members reviewed the programme of work which covered the remainder of the financial year. It was noted that an agenda item would likely go to the December 2014 meeting around the procurement of future Internal Audit Services

RESOLVED:

THAT the Audit Committee Work Programme be noted.

30. **External Auditor's Audit Results Report**

The council's external auditors presented to the committee their findings over the financial statements of the Isle of Wight Council as well as that of the Councils Pension Fund which would need considering prior to approving the Councils accounts for the 2013/14 financial year.

Members were pleased to note that there was an unqualified opinion on the Authority's financial statements and the Value for Money conclusion recorded in the audit report.

However the report acknowledged it should be noted that ongoing financial pressures around making significant savings was an area that needed to be closely monitored, and the auditors would focus on the issue as part of their 2014/15 audit.

Significant findings from the financial statement audit included a review of the accounting model for the Highways PFI contract where the auditor's judgement was that the Council's initial financial model was deemed not to be fully consistent with the accounting requirements. The findings were discussed with financial management, who then amended the model as required.

With regard to the internal control error where a payment was made to a company whilst it was in administration, members were advised that human error could never be fully eliminated, nevertheless the auditors were satisfied that sufficient measures had been put in place to review the payment process and prevent the likelihood of such a significant control weakness reoccurring.

Members were advised that the DCLG had consulted on bringing forward the date for preparation and approval of the financial statements of local authorities and, if agreed, this may provide a challenge that the council would need to prepare for in advance. This may include removing any non-statutory disclosures and assessing the extent processes may need to change to reduce production time, including making the financial statements more easy to consider. Members welcomed the prospect of reducing the amount of information in the accounts and making them more easy to read, and suggested that in future the approval process would be improved if an informal meeting of members and officers could be arranged in advance of the committee considering the accounts.

There were no reported issues or recommendations outstanding from the 2013/14 audit and members were also pleased to note that the actual audit fee was in line with the agreed charge.

RESOLVED:

THAT the External Auditor's Audit Results Report be considered and noted.

31. **Final Statement of Accounts 2013/14**

The committee considered a report from the Head of Finance / S151 officer which sought approval of the council's Statement of Accounts for 2013/14 following

completion of the external audit process, and having given due consideration to the content of the auditor's results report.

The summary outturn position for 2013/14 was considered by members at the Audit Committee on 26 June 2014. Approval of the audited Statement of Accounts, which included the outturn position, would need to be gained no later than the end of September 2014 by members of the committee as required by the Accounts and Audit (England) Regulations 2011.

It was noted that the budget was in balance at the year end and that an overall net saving of £993,000 was in place. As proposed at the Audit Committee on 26 June 2014 this would be retained in an earmarked reserve to partially offset the savings target of £1.429m brought forward from 2015/16 to 2014/15.

Members were also advised that there had been no objections raised around the accounts.

RESOLVED:

THAT the contents of the report and the council's Statement of Accounts for 2013/14 following consideration of the external auditor's annual governance report to members be considered and approved for publication.

The Chairman then signed the Statement of Accounts 2013-14 before they were presented to the external auditors.

32. **Internal Audit Performance Report**

The council's internal auditors report was presented, providing executive summaries of their work carried out along with the key performance indicators.

Members were advised that since the last meeting where the committee was informed that there was one report outstanding from 2013/14 on 'Accounts Payable', the report had since been finalised. As a result, the executive summary advised of a 'medium' risk, highlighting an issue in relation to a significant contract payment.

The council's Shared Service Manager advised that a payment had been generated in error by a member of staff who had been requested to clear an outstanding commitment on a purchase order showing in the 2013/14 accounts. However, due to a failure to understand the full implications of the action, the system automatically generated a payment of £431,565, totalling £517,878.00 when taking into account 20% VAT. The company concerned, Pihl (UK) Ltd, was in administration by November 2013 and steps, including through the courts, were being taken to recover the payment.

The error, whilst significant to the authority, was a result of human error and steps were in place to mitigate the risk of a repeat incident. These included a double sign off of any payments in excess of £100,000, meaning each transaction would need validating before being processed.

The committee was assured that no money had been lost to the council and that it was being held in a separate account, not being absorbed as part of the company's administration.

With regard to the remainder of the internal audit findings, members noted that there had been no high or critical findings

It was noted that in order for time for the action plan to be completed, the scheduled review of Adult Safeguarding had been postponed until 2015 – 2016 along with the scheduled review of the Longer Term Interventions Team.

RESOLVED:

THAT the progress report of the council's internal audit provider be noted.

33. **Strategic and Significant Service Risk Report**

The Business Improvement Manager presented a report which provided members an opportunity to review the Council's strategic risks and to gain an oversight of those risks which were significant in service areas.

It was noted that the nine strategic risks had been reviewed by the relevant responsible managers and their comments had been included in the committee report. There had been little change to the risk scores since the last report, although one hazard around the council's partnership with Hampshire County Council had been reduced owing to independent views on the improved OFSTED reports around school improvements.

The council's Head of Human Resources and Organisational Change then presented to the committee a [PowerPoint presentation](#) on the Strategic Risk around insufficient staffing capacity and skills to deliver wholesale organisational change.

Following the presentation, members commented that flexibility was needed in order for the authority to progress in the future. A reduction in resources would need to deal with an increase in demand and as such, resources would need to be distributed carefully.

Concerns were raised over the risk of an increase in stress related issues as a result of a reduced workforce and increased workload. It was noted that there was no hard evidence to suggest of any significant increase, which could be the result of managers dealing with the situation effectively, although it was also acknowledged that in such difficult times, most staff may be seen to be suppressing any anxieties for fear of any possibility of losing employment. Such a risk would therefore need to be monitored.

There were also concerns raised around some employees, who as a result of redeployment, accepted positions where they felt they were not best suited in order to avoid being made redundant. Members were assured that any staff that had such anxieties would be given as much assistance as possible in order to help them.

Staff with the relevant skills could also be assisted in forming Community Interest Companies in order to utilise valuable skills and continue to provide the public with a service. However, the council would need to ensure that the best support would be provided in order to maximise the success of the company.

RESOLVED:

- I. THAT the strategic risks of the council as set out at paragraph 6 and their controls as set out at Appendix A were reviewed and agreed
- II. THAT the service risks currently assessed as 'red' as set out at Appendix B and to seek any further information were reviewed and noted.

34. Review of the Audit Committee Effectiveness ([Recording 1](#) and [2](#))

The Business Improvement Manager presented a report which provided members with an annual review of the committee's effectiveness in overseeing the council's financial affairs, governance and risk management arrangements.

The committee was requested to consider its terms of reference as well as consider any changes arising from the CIPFA checklist (A Toolkit for Local Authority Audit Committees). The toolkit set out core functions and compared the committee's current terms of reference with such expectations.

It was noted that the committee's activities and terms of reference did match expectations very closely.

The committee was also requested to note the evaluation undertaken by the council's internal auditors of member's involvement in risk management and consider any actions that may be required.

Members were advised that in general the committee did well in addressing its duties, although it could always strive to improve its efficiency. It was also noted that the recent day event at the council's internal auditors was a success and all issues raised would be addressed in due course.

With regard to the terms of reference, members suggested that in order to maximise the committee's effectiveness and influence as well as be able to spread the substantial workload, the membership should be increased from its current five voting members. Additional effort should also be made to recruit the second non-voting co-opted member.

RESOLVED:

- i. THAT the committee's terms of reference at Appendix A be considered.
- ii. THAT the membership be increased to include additional voting members.
- iii. THAT any changes highlighted at Appendix B arising from the CIPFA checklist be noted.

- iv. THAT the assessment of the committee against the core functions of audit committees as set out at Appendix C be noted.
- v. THAT the evaluation undertaken by the council's internal auditors of member's involvement in risk management shown at Appendix D be noted.

CHAIRMAN