



# Minutes

Name of meeting	<b>AUDIT COMMITTEE</b>
Date and time	<b>TUESDAY, 19 MAY 2015 10.00</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT</b>
Present	Cllrs Reg Barry (Chairman), David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart
Officers Present	Jennifer Beresford, Stuart Fraser, Bob Streets, Jo Thistlewood
Auditors	Kate Handy, Kevin Suter (Ernst and Young) Dan Deacon, Geraint Newton (PricewaterhouseCoopers)
Apologies	Cllr Stuart Hutchinson Mr Paul Wilkinson (Co-opted Member)

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44. [Minutes](#)

RESOLVED:

THAT the Minutes of the meeting held on [19 February 2015](#) be confirmed.

45. [Declarations of Interest](#)

There were no declarations received at this stage.

46. [Audit Work Programme](#)

The committee reviewed the draft work programme for the 2015/2016 financial year. Members were advised two amendments would be made: The Annual Internal Audit Report 2012-2013 would be changed to 2014-2015 and the training workshop which took place on 7 April 2015 would be added to the training schedule.

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT the work programme and proposed amendments be noted.

47. [External Auditor – Council Audit Plan 2014-15 and Pension Fund Audit Plan 2014-15](#)

The committee was provided with the external auditors 2014-15 draft plans for the audits of the Isle of Wight Council's Accounts and the Isle of Wight Pension Fund.

Three key risks were highlighted in the audit plan for the Council's Accounts:

- Financial Statement Risk - Fire fighter pension fund and ill health benefits

Ill health benefits for retained firefighters equating to approximately £610,000 had been charged to the firefighters pension fund rather than the council's general fund. The eleven firefighters had not been personally affected as the error was purely an accounting error, which had resulted from changes to the pension regulations in 2006. The pensions system had been re-coded accordingly.

Members were reassured that provision for the repayment of an equivalent amount, should it need to be repaid to central government, had been made in the close of the 2014/15 financial year accounts and would not impact the projected 2015/16 overspend/savings figures. Dialogue was ongoing with the Department for Communities and Local Government (DCLG) to determine how the amount needed to be repaid to central government. The auditors would assess and test the corrective action.

- Financial Statement Risk - Risk of Management Override

The risk relating to management override was noted as a standard risk which could not be eliminated. The risk was considered inherent to any organisation with a similar structure and not unique to the council. Robust controls and segregation of duties were in place which the auditors would review and journal entries would be checked for accounting bias.

- Economy, efficiency and effectiveness - Financial resilience

Discussion took place surrounding the risks associated with the financial pressures faced by the council. The auditors planned to review both the budget assumptions made and organisational change. The stretch of capacity and impact on management would be included in the assessments.

Members noted the appointment of an individual auditor, for longer than five years, required approval from the relevant body. Ms Handy's appointment for the 2015/16 financial year had been approved. Members noted it would be her final year.

Clarification was provided regarding what was considered a significant, and therefore material error, and when errors were communicated. Overall, the accounts were to be considered free from material error when the value of the errors found did not exceed £4.082m for the council's accounts and £4.259m for the Pension Fund, 1% of gross expenditure/net assets. Uncorrected misstatements of greater than £204,000 in the council's accounts and £213,000 in the pension fund statements would be reported, which was 5% of material error.

Three key risks, all financial statement risks, were highlighted in the audit plan for the Isle of Wight Pension Fund which was noted as performing well:

- Risk of Management Override
- Change in pensions Administration system
- Change in custodian arrangements

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT the external auditors plans for the audit of the council's 2014-15 accounts and the Pension Fund for 2014-15 be noted.

#### 48. [Financial Regulations](#)

The Head of Finance and Section 151 Officer presented updated Financial Regulations and a summary of the amendments that had been made to the previous version.

The regulations provided a framework for consistent financial management and the internal control standards that would be put in place across the council. The regulations also helped the council manage any risks to the achievement of its corporate objectives.

The committee was advised efforts had been made to future proof the regulations against organisational changes. Adjustments to the approval limits, including those on the SAP module which managed supplier relations, had improved controls as had the introduction of counter signatories on high value contracts and payments. The Scrutiny Committee's Budget Task and Finish group provided members with reassurance they were receiving feedback on budget matters.

Members agreed that page D-36, paragraph 6.2.5 of the report (attached to and forming part of these minutes) would be amended to read “Where a contract has a whole life value over £1.5m, or is deemed to be of particularly high risk, sensitive or likely to have a substantial impact on the council’s corporate priorities or its reputation, consultation with the relevant Executive member will be required and the Executive **should** be required to give its approval to the procurement proceeding” rather than **may** be required.

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT the updated Financial Regulations be noted and approved for publication subject to the change to paragraph 6.2.5 of the report (attached to and forming part of these minutes) detailed above.

#### 49. **Reports of the Business Improvement Manager**

(a) [Internal Audit Performance Report](#)

The committee was presented with a report from the council's internal audit provider on the progress of the audit plan. Three summaries were noted as outstanding. The report detailed eleven internal audit executive summaries and key performance indicators which were highlighted as being considered low or medium risk:

- Contact Centre (medium risk)
- Wightnet (medium risk)
- ISMS Data Centre - (low risk)
- Schools (medium risk)

Discussion took place regarding the review of the finances of a selection of local authority schools, which were examined annually. During the recent audit review, Newport C of E Primary school had been found to be a high risk. The problems found could be partially attributed to a change in business manager but there were ongoing issues and, at the schools request, an additional review would be undertaken during the summer term. Members requested the results of the review be shared with the committee.

Clarification was provided that the council was responsible for Local Authority schools and church schools where there was an

arrangement that the local authority provided education. The council's responsibility with regard to budget deficits was to plan the management of the deficit or in the worst case, fund the deficit.

- Cash and Bank (low risk)
- Creditors (low risk)
- Custody of funds (medium risk)
- General Ledger (low risk)
- Grant Sources Spending (medium risk)
- Housing/Safe and Secure Houses (medium risk)
- Payroll (medium risk)

Concerns were raised regarding the new starters not receiving payments and signing contracts. Officers reassured the committee staff had been paid on time and that the delay was in the accounting treatment only. The auditors advised that human resources had sought legal advice regarding unsigned contracts and it was noted an employee starting work on an agreed day was sufficient to imply a contract.

In relation to following up on audit recommendations, members noted the council needed to be more proactive. It was possible improvements had not been recorded and implementing recommendations would be pursued.

The committee sought reassurance the new contract management arrangements resulting from the restructure were being reviewed. It was noted they would be subject to an internal audit review whilst also being reviewed by the Scrutiny Committee.

Clarification was provided regarding reviews which had been listed as suspended; these were additional reviews resulting from freed up audit time in previous years rather than scheduled audit reviews or had been postponed as other organisations were undertaking reviews of a similar nature at that time (for example Atkins undertaking a review of the highways PFI).

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT the internal audit progress report be noted.

(b) [Draft Annual Governance Statement \(AGS\) 2014/15](#)

The committee considered the elements of the governance framework, which would be the basis of the Annual Governance Statement 2014/15 and would be presented to the committee for approval on 25 June 2015. Members' attention was drawn to three reports which were significant to the governance arrangements:

- Internal Audit review of Corporate Governance (February 2015)
- Chartered Institute of Public Finance and Accountancy review of the Audit Committee Effectiveness (September 2014)
- Internal Audit review of Risk Management (September 2014)

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT the proposed governance framework be noted.

(c) [Audit Committee Annual Report 2014/15](#)

The committee reviewed the chairman's annual report which outlined the committees work, performance and how it had met its terms of reference during the year 2014/15.

It was noted there was an error in Paragraph 14 of the report (attached to and forming part of these minutes): the reference to a presentation on adult services should be removed.

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

- (i) THAT the report detailing its activities during the 2014/15 financial year be endorsed, subject to the removal of the

paragraph 14 of the report (attached to and forming part of these minutes).

- (ii) THAT the report be recommended to the meeting of full council on 8 July 2015.

(d) [The Council's Risk Profile and Review of Risk Management Arrangements](#)

Members noted that Full Council had approved a new corporate plan and revised priorities at its meeting of date, it was therefore noted there had been changes to the risks deemed as strategic.

Three risks had been stepped down:

- Ineffective and inefficient decision making and control processes (governance);
- Failure of arrangements with Hampshire County Council to manage children's services via a strategic partnership
- Ineffective response to a major emergency.

Five new risks had been identified by senior management and were under development. Full details and the controls related to the new risks would be reported in detail at the 25 June 2015 meeting. The new risks related to:

- Growing the economy
- Health and social care integration
- Delivering the councils budget strategy
- Managing the councils significant contracts
- Achieving the councils revised vision

The committee was also updated on the following previously reported five risks:

- Insufficient Financial Resources and viability of the council;
- Insufficient staffing capacity and skills;
- Failure to provide effective arrangements to prevent incidents of abuse of vulnerable adults;
- Educational Attainment
- Failure to identify and effectively manage situations where vulnerable children were subject to abuse;

Concerns were raised surrounding the risks associated with "insufficient financial resources and viability of the council". Different budget strategies and alternative approaches to achieving outcomes and delivering services were discussed. Members noted planning was centred on a more outcome based approach and looked at the capacity to deliver a service.

Members agreed the budget and organisational change programme would need to be monitored closely.

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

- (i) THAT the changes to the council's strategic risks be endorsed.
- (ii) THAT the strategic risks of the council and their controls be noted.
- (iii) THAT the non-strategic risks rated as red and amber sent to members since the last meeting be noted.
- (iv) THAT the annual review of risk management arrangements be noted.

50. **Exclusion of Public and Press**

A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Colin Richards, Dave Stewart

RESOLVED:

THAT under Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business, namely Minute number 51, on the grounds that there was likely to be disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

51. **Update of Internal Audit Tender**

A verbal update on the tender process for the re-letting of the Internal Audit provision was provided. In addition to the standard procurement process, presentations had been made to a review panel as agreed at the last meeting. Members were informed of the chosen supplier and advised that the successful bidder had been notified. It was suggested the chosen auditor be invited to repeat the presentation given during the process to the committee.



A named vote was taken the result of which was as follows:

For (7):

Councillors Reg Barry, David Eccles, John Howe, John Medland,  
Colin Richards, Dave Stewart

RESOLVED:

- (i) THAT the committee accept the appointment of the Internal Auditor.
- (ii) THAT the new Internal Auditor be invited to present the tender presentation to the committee.

CHAIRMAN