



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	THURSDAY, 25 JUNE 2015 COMMENCING AT 10.00 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Stuart Hutchinson (Chairman), Reg Barry, David Eccles, John Howe, John Medland, Dave Stewart
Other Members present	Cllr John Hobart
Auditors	Dan Deacon, Geraint Newton (PricewaterhouseCoopers)
Officers Present	Jennifer Beresford, Sue Dasent, Stuart Fraser, Bob Streets, Jo Thistlewood
Apologies	Cllr Colin Richards Mr Paul Wilkinson (co-opted member)

1. [Minutes](#)

RESOLVED:

THAT the Minutes of the meeting held on [19 May 2015](#) be confirmed, subject to the total number of named votes reading six rather than seven councillors, for minutes 46, 47, 48, 49 (a), (b), (c), (d), 50 and 51.

2. **Declarations of Interest**

There were no declarations received at this stage.

3. [Audit Work Programme](#)

The committee reviewed the draft work programme for the 2015/2016 financial year. The following items were highlighted:

- The internal audit performance report had been pushed back to the September 2015 meeting as work had only recently been started.
- Arrangements had not yet been made for the committee to receive the tender presentation from PricewaterhouseCoopers. Its inclusion was being considered for the “away day” due to take place later in the year.

RESOLVED:

THAT the work plan be noted.

5. Reports of the Head of Finance and Section 151 Officer

a) [Treasury Management Annual Report 2014-2015](#)

The committee was provided with the annual report detailing the treasury management policies, practices and activities for the financial year 2014/2015.

The key points highlighted were:

- The council incurred a lower than expected short term borrowing cost by borrowing short-term at low interest rates, which contributed positively to the overall outturn.
- Due to low interest rates and reduced surplus funds for investment, lower than average investment returns had been received.

Discussion took place surrounding a two-day unscheduled investment during the closure of the council's offices over Christmas 2014. Due to the expected receipt of a government grant in the period, £6,025,000 was transferred into National Westminster Banks (NatWest) instant access account for two days. NatWest had been suspended from the approved investment counterparty list due to its credit rating, so the activity fell outside the parameters for specified investment. The activity was within officer delegated powers and permitted under the treasury management strategy as long as the committee was notified of such an activity. Members noted that while not approved for investment purposes, NatWest was the council's banker.

There was no additional risk to the council as the monies would have been in a NatWest current account if not moved, and the officer time involved was minimal (10 minutes). £82.53 was earned on the investment.

Members requested Capital Financing Requirement (CFR) was explained. CFR was defined as the amount of money the council would theoretically need to borrow if all historic capital projects had been financed by borrowing. A variance between the approved and actual CFR for 2014/15 had resulted from a timing difference between the accounting requirements of the Highways PFI being finalised and the 2014/15 Treasury Management Strategy had been set. No additional borrowing had been required; the difference was a matter of accounting treatment.

In response to a question on the Highways PFI contract, confirmation was provided that performance related fines for the contract were collected regularly. The contract management invoices were levied on a monthly basis and the penalties were deducted from the monthly payments. Capacity issues relating to contract management and performance management had been raised by W S Atkins during their review of the project. Members agreed there were concerns over the council's capacity to deliver effective contract management which would be addressed later at the meeting.

The committee sought clarification on the loaning of money between the council and the Isle of Wight Pension Fund. Legislation was changed in 2011 to prohibit councils using pension fund monies to finance day-to-day activities and separate bank accounts had been required since April 2011. The council continued to lend money to the pension fund to support its operational cash flow requirements. Any lending was done at arm's length and interest was charged at current broker rates.

Members noted that the council had paid off long term borrowing when it had surplus funds which reduced longer-term investment opportunity (at low interest rates) but also reduced long term debt (at much higher interest rates).

RESOLVED:

THAT the report be noted.

b) [Draft Outturn Statements 2014/15](#)

The committee was provided with the council's draft outturn statements in preparation for the formal approval of the full statement of accounts at its 29 September 2015 meeting. There were no changes to accounting policies for approval.

Members noted that despite a predicted overspend for the financial year 2014/15, the council has achieved an underspend of approximately £241k. Notable overspends had been offset against underspends in other departments such as £1.2m relating to corporate items. The overspends highlighted were as follows:

- Adult Social Care (£1.7m) from pressures related to care packages and the under recovery Wightcare income.
- Procurement and Contract Management (£690k) from the waste contract and concessionary fares.
- Highways PFI and Coastal Management (£457k) from pressures related to costs outside the contract (such as event traffic management plans) and coastal repairs.

Concerns were raised regarding the significant overspend by Adult Social Care and members were advised many of the services were statutory and similar pressures were expected in the current financial year based on early forecasts. The Island had a large number of elderly residents that required social care in comparison with much of the rest of the country. The impact of changes to funding from central government, which no longer took into account demographics, had therefore been significant in terms of the council's budget. The Director of Adult Social Care was expected to present the Joint Executive and Corporate Management Team with a paper regarding the budget for that service area.

Discussion took place regarding the carry forward balances which were split into three categories: External funding and grants which had to be carried forward and were usually ring-fenced, underspend committed for 2015/16, and potential spending for 2015/16 (approved by the budget scrutiny task and finish group). There was significantly less carryover (£835k) in 2014/15 than the previous financial year (£5.7m). Clarification was provided that slippage of a budget from year one to year two budget was normal, but anything further and the requirement for the budget would be questioned.

Concerns were raised regarding the Section 106 monies in the reserves, particularly in relation to time limits for spending of those monies. Reassurance was provided that the monies were managed and that, to date, no monies had expired and needed to be paid back. The committee agreed that, as ward members, they needed to be more proactive and take responsibility for ensuring their wards section 106 monies were utilised.

Members noted that the Rural Broadband project had approximately 12 weeks left and would be included in the wider audit of contract management which was scheduled for quarter three 2015/16. The terms of reference for the review had been approved and work was due to begin in July 2015.

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

For (6):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Dave Stewart, Stuart Hutchinson.

RESOLVED:

THAT the net outturn position as of 31 March 2015 be approved

6. [Procurement Monitoring Report for the Year 1 April 2014 to 31 March 2015](#)

The strategic manager for procurement and contracts outlined the procurement board's activity from 1 April 2014 through 31 March 2015.

The number of waivers had been reduced from the previous financial year, which was considered a positive. The procurement team had recently undertaken an exercise whereby contracts that were due to expire, or where the initial term was due to expire, had been identified. The stakeholders for those contracts (approximately 85) were contacted and asked to clarify if the contract was a one off or would be re-let. At the time of the meeting, approximately 40 stakeholders had indicated their contracts would be re-let. The intention was to look at overlap and identify potential savings.

The committee were also advised that the nature of the procurement board was under review. Moving forward it was expected that the board would look to become more encompassing and ask deeper questions such as:

- Was there a service need for the provision being let?
- Did it fit the strategic plan?
- Could a partnership or a trading arm be created?
- Should the contract be decommissioned and different activities undertaken?

RESOLVED:

THAT the report be noted.

7. **Reports of the Business Improvement Manager**

a) [Annual Report of the Head of Internal Audit](#)

The committee was presented with an annual report summarising the activities of the annual audit function. The overall opinion was "generally satisfactory with some improvements required". Members were advised this was the second highest rating an organisation could achieve. The number of low and medium risks had increased in 2014/15 which was indicative of a slight weakening in the councils control environment. However, no critical risks had been identified. The key issues for consideration were highlighted:

- Reduced support/supervision due to reduction in capacity.
- Out of date documentation/corporate expectation
- Segregation of duties

Members were asked to note the majority of audit work had been undertaken as scheduled. The work on the Highways PFI was delayed to allow W S Atkins to complete their assessments but would be carried out in quarter three to ensure audit coverage.

Discussion took place regarding the auditing of jointly commissioned and shared services, particularly in relation to integration between health and social care.

PricewaterhouseCoopers LLP had wide ranging powers related to seeking explanations associated to the council's financial affairs (as their authority was invested in them by the Section 151 officer and the Accounts & Audit Regulations). However, members noted their powers were limited in terms of requiring other organisations to provide explanations, without the acquiescence of those organisations.

RESOLVED:

THAT the report be noted.

b) [The Council's Risk Profile](#)

The following ten risks were highlighted in the report

- 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;
- Failure to secure the required outcomes from the integration of Adult Social Care and Health.
- The council fails to achieve the required outcomes from its significant contractual relationships and fails to successfully resolve some anomalies in the contract's interpretation (in relation to the 25 year highways PFI contract)
- The risk that the islands economy falls further behind its mainland comparators and was unable to generate sufficient wealth to sustain the Island and its community.
- Achieving the Vision for the Island.
- The council failed to deliver its approved budget and there were insufficient reserves to meet the deficit.

Members were advised that controls had been put in place to manage concerns relating to the five risks identified, following the revision of the council's priorities.

Discussion took place surrounding the risks related to contract management. Concern was expressed in regard to the controls in place for the management of the Highways PFI and new contracts such as the waste contract. Members agreed that the Head of Contract Management

would be invited to attend the September 2015 meeting of the committee and that prior to that meeting a list of questions would be sent to him.

Attention was drawn to the non-strategic risks provided to the committee between meetings and members were invited to highlight any risks they felt should be addressed when the committee next met.

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

For (6):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Dave Stewart, Stuart Hutchinson.

RESOLVED:

- (i) THAT the review of the risks be approved.
- (ii) THAT the Head of Contracts be invited to give a progress report to the audit committee at its 29 September 2015 meeting.

c) [Annual Fraud Report 2014-15](#)

The committee reviewed the annual report on incidences of fraud and other irregularity experienced by the council in the financial year 2014/15. In keeping with previous years, instances of fraud were rare and the only known issues related to housing benefit and council tax. Similarly, few instances of whistleblowing occurred.

Discussion took place surrounding future developments which would need to be taken into account. The transfer of the Benefits Fraud Team to the Department of Works and Pensions would impact on fraud monitoring in relation to council tax and other areas. A review of fraud arrangements would be required due to the change. It was agreed fraud arrangements needed to be robust to protect the council's reputation. Members noted there was scope, under the new contract with PricewaterhouseCoopers to access their fraud expert. A report reviewing the arrangements would be presented to the committee at its next meeting.

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

For (6):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Dave Stewart, Stuart Hutchinson.

RESOLVED:

- (i) THAT the report be noted.

- (ii) THAT committee receive a report on fraud and its management at its 29 September 2015 meeting.

d) [Draft Annual Governance Statement 2014/15](#)

The committee considered the Annual Governance Statement 2014/15 and its structure. The areas of weakness in the councils Governance Statement were considered a key part of the document and were highlighted as follows:

- The impact of austerity measures on the council's capacity for good governance, strict internal controls and corporate memory.
- Risks inherent to change itself and the impact on governance.
- The requirement for different approaches to governance as a result of innovative and partnership working.
- The impact of the political environment in light of the council's unprecedented financial position.

Discussion took place regarding select committees in relation to governance. Since the select committees terms of reference were to review and assist in the development of policy, it was agreed details pertaining to select committees should be included in Section 8 of the statement (attached to and forming part of these minutes).

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

For (6):

Councillors Reg Barry, David Eccles, John Howe, John Medland, Dave Stewart, Stuart Hutchinson.

RESOLVED:

THAT the committee endorse the statement and recommend it to the Managing Director, leader and Full Council subject to the inclusion of information pertaining to select committees in the statement.

8. [Members' Question Time](#)

A question was raised by Councillor John Hobart relating to the section 106 levy linked to the development of the former Whitecroft hospital. The chairman advised the committee would contact the relevant officer and ask for an update regarding the allocation and spending of the monies.

The chairman reported that this may be the last meeting of the committee before Mr Stuart Fraser, Head of Finance and Section 151 Officer retired. The

chairman thanked Mr Fraser for sound advice and his commitment to the effective running of the council. Mr Fraser responded accordingly.

CHAIRMAN