



# Minutes

Name of meeting	<b>AUDIT COMMITTEE</b>
Date and time	<b>TUESDAY, 29 SEPTEMBER 2015 COMMENCING AT 10.00AM</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT</b>
Present	Cllrs Stuart Hutchinson (Chairman), Reg Barry, David Eccles, John Howe
Auditors Present	Emma Butler, Geraint Newton, Kevin Suter
Co-opted (non voting) Member	Paul Wilkinson
Officers Present	Jennifer Beresford, Andrew Carpenter, Bob Streets, Jo Thistlewood
Apologies	Cllrs Colin Richards, John Medland, Dave Stewart

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9. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on [25 June 2015](#) be confirmed.

10. **Declarations of Interest**

There were no declarations received at this stage.

11. [Audit Work Programme](#)

The committee reviewed the draft work programme for the 2015/16 Financial Year.

The Internal Audit Progress report, postponed from the 25 June 2015 meeting, was discussed.

The Audit Away Day held on the 23 September 2015 had included the PricewaterhouseCoopers tender presentation and a session on fraud and its management. A business case for further fraud investigations was pending.

The committee requested the internal audit review of the rural broadband project be included as an item for consideration and that changes to the 2016/17 internal audit plan be dealt with informally initially.

Members agreed that the proposal made at the Audit Away Day, that the Committee could benefit from having less formal meetings between those scheduled, should be pursued. A review of the Council's non-strategic risk could be undertaken at an informal session.

### RESOLVED

THAT the work plan be noted.

## 12. External Auditor's Audit Results Report

The committee considered the two audit results reports presented by the council's external auditors:

### *Isle of Wight Council Audit Results*

The auditors advised that an unqualified opinion would be issued on the authority's financial statements, subject to their approval by the committee. No control issues were highlighted. A small number of misstatements, none which needed to be highlighted individually had been corrected during the audit.

Two significant risks were identified in relation to the financial statement:

- Fire fighter pension fund and ill health benefits.

Ill health benefits for retained firefighters had been charged to the firefighter's pension fund rather than the council's general fund. The arrangements to address the error were considered appropriate by the auditors.

- Risk of Management Override.

The risk relating to management override was noted as a standard risk identified on all audits undertaken. No evidence of override had been found during testing.

The audit relating to Economy, Efficiency and Effectiveness had resulted in an unqualified value for money conclusion. However, financial pressures were identified as a significant risk and the scale of the challenge faced by the council was highlighted. The key concerns raised were:

- Ongoing central government reviews of funding.
- Use of reserves to manage financial pressures.
- Risk of officer capacity becoming over stretched.

The committee was reminded elected members would need to make difficult decisions and strong political leadership would be required as a result of the challenges. Reassurance was provided the audit findings showed no indication that government interventions would be required in 2016/17 and it was noted further savings plans were expected later in September 2015.

Clarification was sought regarding the inclusion of funds from the Asda development in the reserves. However, the funds were ring-fenced as capital and could not be used to support revenue budgets.

#### *Isle of Wight Council Pension Fund Audit Results*

The auditors advised an unqualified opinion would be issued on the Isle of Wight Pension Fund's financial statements, subject to their approval by the committee. A small number of minor inconsistencies and rounding errors had been corrected during the audit.

Three significant risks were identified in relation to the financial statement but the audit did not identify any issues relating to them:

- Risk of Management Override
- Change of pension's administration system.
- Change of asset custodian

The following potential risk for 2016-17 was identified:

- Anticipated changes to operational and senior management of the administering authority
- The impacts of the loss of pension fund knowledge and its operations expertise which should be managed through effective handover.

Members expressed concerns relating to the loss of expertise. Reassurance was provided that controls to mitigate the risk were being put in place and there would be a transition period for the transfer of knowledge. The Isle of Wight Pension Fund Committee and its Pension Board would be reviewing the situation, as would the internal auditors. The committee agreed they would review this information at a subsequent meeting.

#### RESOLVED:

THAT the outcomes detailed in the audit results reports be noted.

### 13. **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. All 2014/15 findings issued were noted as final.

Four internal audit executive summaries and key performance indicators were also highlighted as being considered medium risk:

- Development Control.
- Income generation.

- Hampshire Strategic Partnership.
- IT Strategy.

Discussion took place surrounding the re-validation of building control costs. Re-validation was costly in terms of resource and no profit could be made legally. Inflationary increases were applied to the charges annually. Therefore, while the auditors and members considered a revaluation would be prudent it was agreed there was little value to undertaking the exercise as long as costs continued to be met. A revalidation would be conducted when resources were available.

Members expressed concern that the Waste Contract would result in similar issues as the PFI. Reassurance was provided the processes related to procurement and project management had been reviewed. The arrangements would be scrutinised again when the contract had been in place for a suitable period to ensure they were effective. A further review of the structure of the contracts unit to ensure knowledge gained from procurement process was not lost would also be undertaken.

It was noted that financial penalties relating to the Highways PFI needed to be collected in a timely fashion or they expired. Therefore, any attempt to quantify the councils losses from previously uncollected penalties would be a waste of resource.

In light of the unease relating to contracts, the committee requested officers discuss allocating part of the budget for internal Auditing in 2016/17 to a specialised commercial assurance audit.

Approval was sought for the changes to the 2015/16 plan, as detailed on page D6 of the report (attached to and forming part of these minutes), as agreed at the meeting held in February 2015. The auditors noted members concern that the review of Environmental Health had been postponed but was listed as a risk.

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

For (4):

Councillors Reg Barry, David Eccles, John Howe, Stuart Hutchinson

RESOLVED:

- (i) THAT the internal audit progress be noted
- (ii) THAT the changes to the Internal Audit Plan be approved.

(b) [The Councils Risk Profile](#)

The following nine risks were highlighted in the report

- Lack of financial resource and the ability to deliver the councils in-year and medium term budget strategy (previously reported as two separate risks).
- 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 years highways PFI contract).
- The risk that the island's economy falls further behind its mainland comparators and is unable to generate sufficient wealth to sustain the Island and it's community.
- Achieving the Vision for the Island.

Members questioned how risk ratings related to staffing levels, particularly in relation to children's services. Reassurance was sought that issues linked to staffing, such as delays in assessments, were being monitored. Officers advised that Children's Services had a detailed action plan relating to performance and reviewed performance to targets and benchmarking regularly. The council's budget strategy also sought to protect funding for the service.

Discussion took place surrounding devolution in relation to the risk "Achieving the Vision for the Island".

The committee agreed discussions with the manager of each risk would be beneficial. A list of the risks and their owners would be provided for the committee to decide how they wished to proceed.

**RESOLVED:**

- (i) THAT the review of the risks be noted
- (ii) THAT the individual risk managers be invited to meetings of the audit committee.

**14. Contract Management**

The Head of Contract Management was unable to attend the meeting due to the signing of the Waste Contract and was invited to attend the December 2015 meeting.

**RESOLVED:**

THAT the item be deferred.

## 15. Reports of the Technical Finance Officer

### (a) [Statement of Accounts 2014/15](#)

The committee was provided with the council's Statement of Accounts for 2014/15 following the completion of the external audit process.

Clarification was provided regarding:

- Funding for the Highways PFI contract

The grant funding for the early years of the contract exceeded the incurred charges. The surplus monies would accrue in the reserves and be used to pay for the £30m charge in year five of the contract. Monies would then build up again and be used to pay for the years of the contract where the grant funding would be less than expenditure.

- The Ryde Gateway project

The project had not been undertaken but a grant had been received and required repayment, spread over a number of years, as shown in capital expenditure and financing table.

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

For (4):

Councillors Reg Barry, David Eccles, John Howe and Stuart Hutchinson

RESOLVED:

THAT the council's Statement of Accounts 2014-15 be approved.

### (b) [Revision to Treasury Management Strategy 2015/16](#)

The committee were presented with a revised treasury management strategy for 2015/16 which incorporated the borrowing requirements of the waste contract.

Members noted revisions were required to the strategy as the waste contract had not been finalised when the strategy had been approved in February 2015. The sections changed were:

- External context
- Local context
- Borrowing Strategy
- Treasury Management indicators
- Financial Implications

- Appendix A, B and C

The committee was informed the council borrowing to fund the waste project was £80m over the life of the contract. £69m would be used in the first 3 years to facilitate capital investment such as waste disposal, recycling plants and the purchase of sites. There would be a £9m budget envelope per year to fund both the service charges and the capital finance. The interest and repayments came from that budget envelope and there were no additional costs to the council. The contract represented significant savings and there was the possibility of additional income generation.

Reassurance was also provided that the council was protected should the contractor have financial difficulties. The Council would own all assets and the monies would be held in trust by them.

RESOLVED:

THAT the changes to the 2015/16 Treasury Management strategy be noted

CHAIRMAN